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Following are two statements by M. Peter McPherson as Acting Director of the International Development Cooperation Agency (IDCA) and as Administrator of the Agency for International Development (AID) before the House Committee on Foreign Affairs on March 19, 1981.

STATEMENT AS ACTING IDCA DIRECTOR

It is an honor for me to appear before this committee for the first time. I look forward to a close working relationship with you as we together seek ways to strengthen U.S. development assistance programs.

I appear before you this morning as Acting Director of the International Development Cooperation Agency. As you are aware, this Administration is reviewing the structure of IDCA. While the Administration's final recommendations are not yet set, and we will consult with you before they are, we are committed to the essential idea behind the creation of IDCA: that the various development assistance programs of the U.S. Government be carefully coordinated and interrelated and that our policies toward developing nations be clearly enunciated and defined. These objectives will be achieved within the coherent framework of U.S. foreign policy now being established by President Reagan and Secretary Haig.

As I begin this new task, which I consider an extraordinary opportunity, I have found it useful to review past experience as I look to the future. Developing countries have made much progress in the 30 years or so since their modern, independent economic growth began and since the United States first launched the concept of large-scale international development assistance. Our satisfaction at these accomplishments must be tempered, however, with concern over today's problems and those of the rest of this century.

Over the past 30 years, developing-country economies grew faster than the industrial nations had ever grown in any comparable period. At the same time, life expectancy—a useful index of a country's health and general living standard—rose from 32 years (just before World War II) to 50 years, an increase that took the industrial countries the entire 19th century to achieve. Adult literacy rose from one-third in 1950 to about one-half by 1975, while the number of students in primary schools more than tripled.

Substantial progress has been made toward economic self-reliance and diversification. In the early 1950s, many of the countries that have achieved these advances were just emerging from colonial status, were torn by unrest or open warfare, were dependent upon one or two commodities for the bulk of their exports, and had barely begun to create the educational, research, and governmental institutions on which modern development depends.

The United States can be proud of the contributions we made to this historically unprecedented record of economic and social advancement. The

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United States was at the forefront of the industrial nations in recognizing the need for international economic and technical assistance to the developing countries, in creating programs to provide such assistance, in urging other industrialized countries to increase their aid efforts, in promoting the expansion of the burden-sharing multilateral assistance agencies. Private U.S. investment in developing countries has been encouraged and the system of international trade strengthened in recognition of the opportunities trade can offer as an engine of growth, especially for market-oriented economies.

This progress has also brought home to us the reality of problems that persist and affect us all ever more directly. We have learned that continued progress in Third World development is of growing importance to our own domestic and international well-being. In the past year public awareness of our interdependence has been highlighted by the Presidential Commission on World Hunger, the Brandt Commission, and the "Global 2000" study. The "Global 2000" report in particular presents a sobering picture of large-scale interrelated problems caused by population growth, energy scarcity, forest destruction with attendant soil and atmospheric effects, and pressure on food production capacity. The hunger commission focused on food production and effective demand for food, the constraints on growth, and the implications for development assistance and for the already vast numbers of hungry human beings in the poorer countries. The Brandt Commission stressed the wider framework of economic policies and institutions, and the need to strengthen these policies and institutions if we are to have a chance of meeting the problems of the next two decades as effectively as we have the previous three.

Future directions in all these areas, and in the progress generally of the developing countries, will have direct impact on the well-being of the United States. U.S. exports to developing countries have been expanding much faster than exports to industrialized countries and now constitute about 40% of the total. About 6% of all American jobs in manufacturing produce exports to developing countries, while the harvest of one out of every four farm acres in the United States is shipped to the Third World. Our growing need for imports of raw materials from developing countries (of which petroleum is only one) is well known.

The entire planet's ability to sustain greatly increased numbers of people, to control atmospheric pollution, to produce sufficient energy, and to reduce stark disparities in income levels and employment opportunities that lead to heavy pressures to migrate to stronger economies, will depend on the rate of economic progress in the developing countries and the extent to which this progress is shared among the entire population. Failure to make acceptable progress in ameliorating conditions of poverty can only lead to domestic instability and increasing frustration on the part of Third World governments over the workings of the international system and the distribution of economic and institutional power in that system as it is now constituted. Such instabilities, as we know all too well, can quickly spill over into regional disequilibrium and create opportunities for interventions that are to the interest neither of the countries directly involved nor to ourselves.

The decision to provide aid to a country is, of course, a key foreign policy decision. Successive Congresses and Administrations, beginning with Roosevelt and Truman and continuing with President Reagan, have recognized the importance to our foreign policy of a strong, broad-based foreign assistance program. The balance has fluctuated over the years between military and economic aid and between the meeting of short or longer term objectives, but at no time have we lost sight of the tremendous importance such resources have to our overall national security interests. There is no doubt that this Administration shall continue to stress the importance of substantial development assistance to helping achieve our national objectives.

Technical and economic assistance needs vary from country to country, as do the degrees and kinds of U.S. interests; as a result, the array of programs we conduct or help finance is also quite varied. The total FY 1982 request for all foreign economic and financial assistance is $8.1 billion, a reduction of $1.5 billion from the Carter budget. This request represents slightly more than 1% of the entire Federal budget.

Bilateral Programs

Approximately 80% of the FY 1982 request is allocated on a bilateral basis. The major bilateral programs are:

AID Development Assistance ($1.9 billion) concentrates on programs pinpointed to areas of special concern to the United States—e.g., the Caribbean—that draw on our comparative advantages and special priorities, as in technology transfer, use of the private sector, and support for equitable growth in a limited number of priority sectors.

The Economic Support Fund ($2.6 billion) promotes economic and political stability where the United States has special security interests. These funds, while directed more explicitly to political objectives, are very important to achieving economic development objectives. Budgetary increases this year are directed especially to helping meet urgent foreign policy priorities in Central America, while providing for enhanced flexibility (in close consultation with Congress) to meet ever-changing special requirements as they develop throughout the year.

PL 480 Food for Peace ($1.2 billion, about 5.5 million tons) provides Third World countries with food supplies to meet national food and nutritional needs while they increase their own food production. As we integrate development programs more effectively, one of my major goals will be the enhanced link between food aid and our other development activities.

Refugee Assistance ($568 million) represents a very substantial U.S. program designed to alleviate the misery and suffering now found with increasing severity worldwide. During 1980, major refugee relief programs were supported in Kampuchea, Somalia, Pakistan, and Zimbabwe. This aid provided immediate survival support followed by supplies of tools, seeds, and shelter in order to permit refugees to become self-sustaining, either in a foreign land or within their own borders.

Housing Insurance Guarantees ($150 million in guarantees, no appropriation required) are designed to provide shelter and associated urban services to low-income families. Housing-guarantee-related efforts now include technical assistance for institution building and helping countries prepare medium- to long-term shelter development plans.

The Peace Corps ($95 million) fields about 6,000 volunteers in over 60 developing countries. Volunteers now carry out important development assignments in key basic human needs areas. Increasingly AID and the Peace Corps are cooperating on joint ventures of common interest, which I am particularly proud of as a former Peace Corps Volunteer myself.

Other bilateral activities include the Inter-American Foundation ($13 million proposed in FY 1982) which extends grants to local private groups in the Caribbean and Latin America.

Multilateral Programs

About 20% of this request is for international development institutions, especially the multilateral development banks. The international character and varied financing windows of the banks make them especially able to work on difficult policy issues and to fund large development infractructure projects that directly increase the productivity of poor people in countries of significant importance to the United States. These projects often complement U.S. bilateral programs, an effort we shall try to strengthen. These banks generate about $3 from other donors for every $1 we provide as well as much larger flows in support of development by the banks' borrowings from the private banking system.

Multilateral Development Banks. The World Bank group, the largest of these banks, consists of the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), and the International Finance Corporation; $1,028 billion is requested in FY 1982, of which $850 million is for the IDA and $163 million for the IBRD.

Regional development banks focus their lending within specified geographic regions. The principal regional banks are the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank; $450 million is requested for these regional programs.

International Organizations and Programs ($260 million). The United Nations has the largest number of technical experts working in developing countries, drawn from some 30 agencies and programs concerned with development. The largest are the U.N. Development Program, the U.N. Children's Fund, U.N. Environment Program, the Food and Agriculture Organization, and the International Fund for Agricultural Development (IFAD). IFAD is unique in that OPEC [Organization of Petroleum Exporting Countries] countries are major donors. Organization of American States assistance programs are a major source of multilateral technical assistance for economic and social development in Latin America and the Caribbean.

Private Investment

This Administration is committed to finding practical means of enhancing the private sector's role in assistance programs and in less-developed country development, both in the programs noted above and in two special organizations in our bilateral program.

- The financially self-sufficient Overseas Private Investment Corporation provides political risk insurance and loan guarantees to U.S. investors in new or expanding businesses in developing countries.
- The Trade and Development Program ($7 million, FY 1982 budget request) promotes private sector participation in Third World development through the provision of project planning services that lead to the sale of U.S. technology for project implementation and through the provision of government-sponsored assistance on a reimbursable basis. Directed principally at middle-income countries that can finance their own development, it complements development assistance programs which focus on the poorer countries.

Conclusion

The development needs of poor countries are tremendous, far beyond what we and others can possibly provide, especially at a time when our own resources are most limited. The programs described today represent a very small part of the Federal budget and a miniscule share of our national wealth. As the most powerful nation on Earth, we cannot, in my view, afford to neglect our own self-interest—both for national security and humanitarian reasons—by failing to provide the investment for development in this year's pared-down budget request. I urge this committee to lend its full support to the total program.

STATEMENT AS AID ADMINISTRATOR

In my presentation as Acting Director of IDCA, I described in broad strokes the importance to the United States of development in the Third World, the scope of the need, and the full range of U.S. economic assistance programs for which this Administration seeks your support. Now as AID Administrator, I will focus on how the bilateral assistance programs administered by AID address important global problems and U.S. objectives. I should like to begin with a few indications of areas of special interest and concern to me, recognizing that these must be of a preliminary character.

This Administration is committed to increased opportunities for the private sector to participate in AID programs. As you know, in recent years AID has substantially expanded assistance provided through private and voluntary organizations; this will continue. So too will our activities in partnership with the American agricultural community, particularly through the programs encompassed in Title XII of the Foreign Assistance Act. I will be searching for means of strengthening both these relationships in ways that produce effective development programs and the least intrusive role for AID while still protecting the interests we all have as taxpayers in efficient use of resources.

Incorporating opportunities for growth of the private commercial sector in developing countries, and in related ways increasing avenues for our own private sector to expand its associations and business, has not previously received the attention it deserves in AID. I have already initiated work in AID to find important and significant programs to involve American financial and manufacturing sectors in investment and advisory activities. We must be careful here to facilitate business involvement and not to substitute for private capital.

Failure to make acceptable progress in ameliorating conditions of poverty can only lead to domestic instability and increasing frustration on the part of Third World governments over the workings of the international system and the distribution of economic and institutional power in that system . . . .

Ultimately the most significant economic development will come from vigorous free markets in goods and services. I am convinced AID can play a significant catalytic role and will be back to you for advice and counsel as our ideas develop.

This committee has stressed, in its development of the new directions legislation, the importance of establishing a sound and permanent institutional base in recipient countries. I am a strong believer in emphasizing in our programs the special capacity we have in the technology transfer area—the provision of skills, ideas and training, and the strengthening of policies, systems, and institutions to carry on development programs once outside help is no longer available. AID is already heavily engaged in technology transfer and many projects providing technical assistance are enhanced by associated resource transfers—for example, fertilizer, contraceptives, and some physical plants and equipment. As I want to be sure we are getting the most benefit from our limited resources, and not doing work that can better be done by others, I am examining AID's program to see whether some shift at the margin toward further institution-building and technology transfer is possible.

AID has a very dedicated and able staff, highly experienced in the difficult job of development. A special strength of AID is its overseas mission structure which permits productive day-to-day dialogue with recipient countries on policy and implementation matters. This approach enhances the effectiveness of our technology and resource transfers. Concentration on institution-building and associated technology transfer will not decrease our staffing needs, and yet AID, along with nearly all other parts of the government, will see significant staff reductions over the next several years. To the greatest extent possible it is my intention to protect our overseas missions and take the bulk of the reductions in Washington. We will be exploring a number of further steps to simplify our systems to reduce unnecessary workload on our staff. This policy has been started by my most recent predecessors, and I intend to move even further in this direction. I will seek your counsel and support for any significant changes that may be necessary.

I strongly support the close integration of the major components—development assistance, PL 480 [Food for Peace program], the economic support fund, and housing insurance guarantees—of our bilateral programs to achieve the greatest degree of development benefit. This committee has pioneered in this effort, and I intend to see that the process is carried forward with even greater emphasis.

Evaluation is an important tool, if used properly, in assuring that our resources are used well and that we learn from past successes and mistakes in planning and implementing future programs. I intend to continue and expand AID's evaluation program, especially the impact evaluations whose usefulness has already gained recognition by this and other committees of Congress.

Program Highlights

These are but a few of the myriad issues, concerns, and opportunities that confront me as new Administrator. I would now like to focus on the highlights of our proposed program.

Food Production. More than half of AID's development assistance budget is focused on food-related problems. Increasing food production distribution and consumption within a growth with equity strategy is a primary goal of AID. The magnitude of the world food problem demands such attention. Food production can be accelerated significantly through better planning, more realistic policies, and increased investment in research, physical infrastructure, and marketing systems.

In FY 1982 $727.8 million is requested for this sector. AID's farm level efforts to increase food production are varied. Through training, technical assistance, and financial support, AID will foster the improvements needed to increase the production of the family farmers. Our focus on the total farming system offers a promising approach to research and development of technologies most useful to farmers. Through additional research—in U.S. universities, international agricultural research centers, and in the growing national research establishments in low-income countries, AID intends to stimulate the continued development and dissemination of improved agricultural technologies.

The agricultural production policies of recipient countries are also critical. We have two major instruments for influencing policy First, through technical and capital assistance we help reduce policy and related institutional impediments to equitable growth. Second, by providing PL 480 food aid in the context of a long-term agricultural development plan, we encourage policy changes to reduce food deficits while addressing the worst immediate aspects of such shortages on the needy.

Deforestation. The grave implications of a related problem, accelerated deforestation, are upon us. This is a threat both to rural energy needs and to agricultural productivity. Forests are being cut for fuelwood at a rate faster than the process of natural regrowth. Consequently, erosion is increasing and the resulting siltation reduces streamflow, increases flooding, and affects the utilization and maintenance of irrigation systems. Adequate supplies of potable water are equally threatened. Forestry assistance is now a key element of AID's program, as is our assistance to help developing countries manage their natural resources more efficiently and productively.

Energy. Deforestation has itself been accelerated by the worldwide fossil fuel energy crisis. With the upward spiral in the price of petroleum-based fuels, the pressure on fuelwood supplies has intensified. AID is therefore giving increased emphasis to the development and diffusion of alternative rural energy sources such as bio-gas and mini-hydro as well as more efficient energy conversion devices, such as wood-burning stoves. We are also strengthening institutions for energy planning and policy analysis. Over $77 million is sought for all types of energy programs in FY 1982.

Population Growth. Rapid population growth in developing countries exacerbates food, environment, and energy problems. Between 1980 and the year 2000, the world's population is expected to increase from about 4½ billion to over 6 billion people; 90% of that increase will take place in the developing countries. While the demographic situation is serious, it is not hopeless. Worldwide population growth rates are no longer rising. Among the 13 most populous developing countries, all have experienced crude birthrate declines. However, significant countries and regions of the developing world are still growing at rapid rates that offset development gains and contribute to local and global instability.

As the largest donor for international population programs, the United States has played an important part in bringing about decreased population growth rates. We have led in developing and disseminating the most widely used contraceptive methods; in providing contraceptives; in developing inexpensive service delivery systems; in training personnel; and increasing motivation for family planning among individuals, communities, and national leaders.

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We must continue to assert our leadership. Today, demand for population programs far exceeds available resources. Our funding request of $253.4 million for population programs is essential to keep up the momentum in the highest priority program areas.

Health. Illness and early death are common among the poor in developing countries. Although infant mortality has declined by almost one-half during the last 25 years, 1 out of 10 infants overall in developing countries fails to reach 1 year of age, and in many countries this figure is in the range of 2 out of 10.

Primary health care, a combination of the most basic preventive and curative health services, is among the most promising means of reducing childhood disease and death, of diminishing poor hygiene and related poor nutrition, as well as the often fatal effects of too-frequent pregnancies. Most developing nations have made a firm commitment to primary health care and many look forward to the extremely ambitious goal of universal access to primary health care by the end of the century.

AID has been a leader in financing primary health care programs since the early 1970s and has helped finance nearly 50 programs in 36 countries. Part of the challenge before us is to help developing countries establish systems that can be self-sustained through government efforts and participation of local communities. We are requesting $120.4 million in FY 1982 to meet that challenge and carry on other priority work in the health sector.

Education. The education problems which developing countries face are enormous. Indeed, because of the rapid growth of the youthful population and the acute shortages of teachers and instructional material, developing countries face the very real prospect of having more school-age children out of school in 1985 than a decade earlier. Our strategy is to help developing countries find cost-effective ways of improving their basic educational programs.

AID also focuses on critical higher level manpower shortages that undermine economic progress in the developing world. AID has supported the training of over 200,000 professionals in a wide range of fields critical to development. I am personally concerned that AID's participant training program has declined in the last decade, notwithstanding continuing high demand for American university and specialized training.

In order to help meet these education and training needs, we are requesting $109.6 million for F Y 1982, primarily for programs in Latin America and Africa. The bulk of these funds will be used to support programs for basic primary and nonformal education as well as vocational, technical, and professional training.

Geographic Highlights

Now let me touch on a few geographic highlights.

Africa. Twenty-six percent of our development assistance program is focused on Africa, including $107.5 million for the Sahel. The most pressing and interrelated problems in Africa today are declining per capita food production and the rapid depletion of traditional energy resources. These problems, aggravated by serious balance-of-payments deficits in many African countries, are resulting in much human suffering. They also point to potential economic and political instability—a matter of great concern to U.S. interests in this continent. Resolution of these problems has become the highest development priority for most African governments and international donors, including AID.

There is significant food production potential in Africa. By the year 2000, and perhaps well before that with adequate investment and supporting policies, a number of countries will be surplus producers. AID assistance strengthens national agricultural research systems, small-holder irrigation, and marketing and distribution systems. We also believe that a combination of improved agricultural and land management practices and expanded reforestation programs by AID and other donors will ease the energy problem. A third approach is to tackle population growth directly, which at 2.7% a year in sub-Saharan Africa is higher than in any other region and still increasing. There is a growing awareness among many African leaders that the population question needs to be faced. To help bridge the food gap, PL 480 Title I and II programs are being maintained as vital to a food-short and drought-prone continent.

Asia. Thirty percent of the development assistance program is concentrated in Asia. Several major Asian countries have chalked up impressive gains in food production. AID assistance in the form of fertilizer, financing for irrigation, and technical assistance has contributed to the Philippines' approaching rice self-sufficiency, to impressive wheat production gains in Pakistan and Bangladesh, and to supporting Indonesian incentive pricing policies for rice production. Our assistance was a major factor in establishing India's agricultural education and research system and domestic fertilizer capacity, which in turn has contributed to its current market self-sufficiency in basic grains.

Notwithstanding this progress, the food deficit for the region as a whole is expected to increase. The gap between effective demand and domestic supply would become even greater if pervasive malnutrition were to be eliminated. Through projects assisted by AID and other donors that help farmers increase food production and provide expanded rural employment and income, a 4% annual growth rate is projected in food production for the region.

[The development assistance] program serves not only our generalized interests in helping to solve some of the world's most critical problems but also our very immediate political interests in achieving a satisfactory relationship with countries important to us on the three major continents where the program is carried out.

While population growth has declined significantly, thanks in part to AID programs in Thailand and Indonesia, the regional annual population growth rate is still above 2% and in some Asian countries is 3%. We expect our continuing family planning assistance to the major countries of the region and substantially expanded programs in Bangladesh to help bring about a significant decline in regional population growth.

Latin America and the Caribbean. The link between the need for accelerated socioeconomic development and U.S. security is most clearly demonstrated in the Latin American/Caribbean region. AID requests a $265.3 million development assistance program in Latin America, concentrated in the Cen-

tral American and Caribbean region, an area where socioeconomic problems are serious and where the United States has vital economic and security interests.

Unemployment and underemployment remain critical problems in Latin America. This reflects slow economic growth in the region's low-income countries, continuing sharp disparities between modern and traditional sectors within countries, and population growth, although declining, still almost 2½% a year. Problems of resource depletion—soil, firewood, and others—are reaching very serious proportions in some countries; the cost of imported petroleum is strangling development efforts and making it difficult for many smaller countries even to maintain existing programs. Our programs serve as catalyst and risk taker, attracting complementary public and private resources in support of innovative programs benefiting the poor.

Cooperatives and credit unions as well as joint private investment ventures with Latin American small enterprise and the use of the economic support fund to support private enterprise in the Caribbean are features of this broad-based AID program.

Importance of Program

The $1.9 billion we are seeking for the development assistance program is nearly one-half billion less than was proposed in the Carter budget. This cut does not represent a reduction in need for funding of agriculture, health, population, and other programs around the world. Rather it represents the outcome of a difficult set of choices in which this Administration has had to give very high priority to reaching an appropriate balance between income and expenditures, a process in which every budget had to be scrutinized and virtually every program had to be restrained no matter how sound the objectives.

As we reviewed the Carter budget, I came to realize how central our development assistance program is to America's relations with countries around the world. Indeed, for many countries the development assistance program is our primary expression of participation in what for them is most important—their rapid economic and social development. Thus, this program serves not only our generalized interests in helping to solve some of the world's most critical problems but also our very immediate political interests in achieving a satisfactory relationship with countries important to us on the three major continents where the program is carried out.

This is a worldwide program, focused on a critical set of development issues—food, population, health, education, and energy. It serves our foreign policy interests well and will leave a lasting impact on vast numbers of poor people. I urge your strong support for this lean and effective AID program. ■

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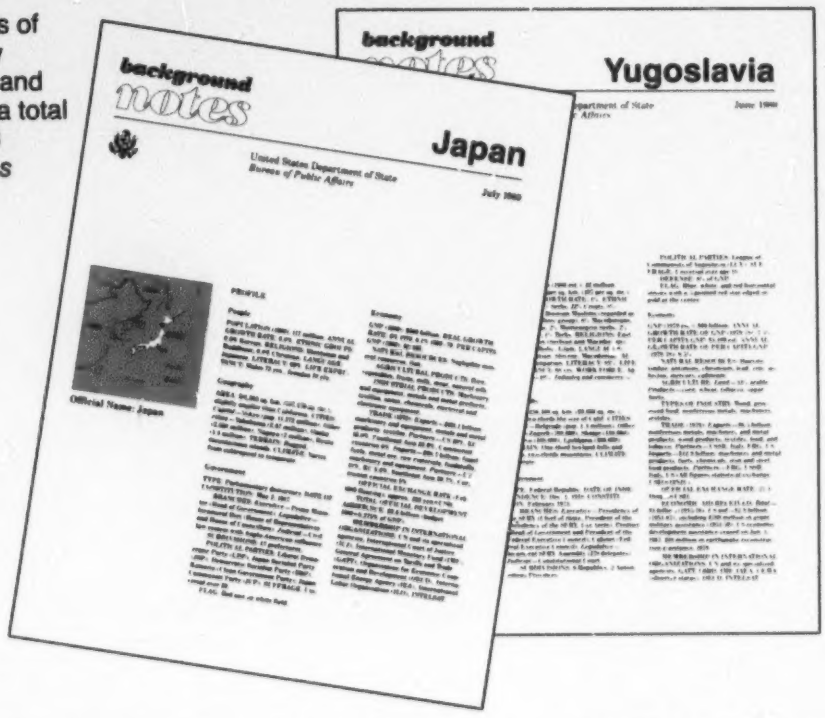

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